



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

HARVARD LAW REVIEW.

VOL. X.

APRIL 25, 1896.

No. 1.

RESTRICTIVE COVENANTS AS APPLIED TO TERRITORIAL RIGHTS IN PATENTED ARTICLES.

A RECENT decision of the Supreme Court of the United States has settled a question which has been much discussed in the Circuit Courts. In *Keeler v. Standard Folding Bed Co.*,¹ the Supreme Court has gone a step beyond its own decision in *Hobbie v. Jennison*,² and has held that one who buys a patented article in one part of the United States of a person licensed to sell it there may sell it as well as use it in any other part. The doctrine that a patented article once sold is free from the monopoly was applied to a case in which the purchaser bought in one State for the purpose of selling in another in which he knew his vendor had no right to sell. It was the case of a dealer in Massachusetts who knew that the right to use and sell the patented article there belonged to another, and yet sent to Michigan and bought the goods there for the purpose of resale in Massachusetts, and sold them here in defiance of the licensee for Massachusetts. It had already been decided in *Hobbie v. Jennison*, that the assignee of a given territory cannot maintain a suit for infringement against one who sells patented articles within his own district with the knowledge that they are to be used in territory of the plaintiff. The court followed its own decision in *Adams v. Burke*, made in 1873,³ and said that it was established by that case

¹ 157 U. S. 659, April 8, 1895.

² 17 Wall. 453.

³ 149 U. S. 355, May 10, 1893.

that "the sale of a patented article by an assignee within his own territory carries the right to use it everywhere, notwithstanding the knowledge of both parties that a use outside of the territory was intended." This principle has now been applied to a case in which the sale was made to a dealer who purchased for the purpose of making a business of selling the articles within the territory of another, and not merely for the purpose of using them there.

The question, as I have said, is one that has been much discussed in the Circuit Courts, and the decision in *Adams v. Burke* was not generally accepted as settling the law. The vigorous dissenting opinion of Mr. Justice Bradley, with whom Swayne and Strong, JJ., concurred, was thought by many of the Circuit judges to be sound in principle, and the injustice resulting from the application of the doctrine of the court to the cases in hand led them to distinguish and to doubt the decision, and to suggest that, if the question should be argued again before the Supreme Court the dissenting opinion would prevail. The decision, moreover, made a distinction between the right to use and the right to make and sell, and went no further than to declare that upon the sale of an article the sole value of which is in its use the purchaser acquired a right to use which was unlimited in place as well as in time.

In *Hatch v. Adams*, argued before Judge McKennan and Judge Butler,¹ in 1884, the question was whether one who purchased a patented article in New York from one who had acquired the right to sell there, and not in Philadelphia, could sell it in the course of trade in Philadelphia to dealers there. Judge McKennan said the patent act authorized a patentee to divide up his monopoly into territorial parcels, and to grant to others an exclusive right under the patent to the whole or any part of the United States, and that a grantee taking a limited right could not exercise it outside of his territory, nor grant to others the right to do so. The decision in *Adams v. Burke*, he said, was that the unrestricted sale of a patented article carries with it the right to its unlimited use and that the reason on which the rule rests involves a plain distinction between the right to use and the right to manufacture and sell an invention; and he came to the conclusion that, even in view of this case, a sale of patented articles, in the ordinary course

¹ 22 Fed. Rep. 434, U. S. Circuit Court, E. D. Penn., Oct. 29, 1884. That Judge Butler took part in this case and concurred in the opinion appears from a remark in his opinion in *Sheldon Axle Co. v. Standard Axle Works*, 37 Fed. Rep. 791.

of trade, outside the territorial limits to which the right to sell is restricted by the patentee's grant, is unwarranted.

In *Hatch v. Hall*,¹ a suit in New York relating to the same patent, Judge McKennan's opinion was referred to with approval by Judge Wheeler, and a preliminary injunction was granted against the sale of the patented articles by the defendant outside of his own territory, but was not allowed as to sales made within his territory on the mere allegation that purchasers might take them for sale into the territory of the complainant; and in the same case, on final hearing,² it was held that the defendant should be restrained, not only from selling within the territory of the complainant, but also from making sales to persons who purchased of him in his own territory for the purpose of selling within that of the complainant. With respect to *Adams v. Burke*, the judge said: "That case is to be followed here, of course, as far as it went, while it stands. It leaves the defendant the right to sell within his territory for more use outside. But it was carefully limited to what was necessary to be decided and did not go beyond the mere use in question. It falls far short of holding that a purchaser from an owner of a territorial right within the territory could sell outside without infringing upon the rights of the owner of that territory."

In *Sheldon Axle Co. v. Standard Axle Works*,³ Judge Butler limited the decision in *Adams v. Burke* to a question of the construction of the assignment, and distinguished that case from one in which the plaintiff held the first assignment of a territorial right and the defendant took with notice of it. He held that the defendant, having notice of the grant to the plaintiff, could not even use the patented article within his territory, although it was purchased elsewhere. Just at this time the case of the *Standard Folding Bed Co.* came before Judge Colt, in Massachusetts,⁴ and he also distinguished *Adams v. Burke*. He said the decision was expressly limited to the right to use, and that even with this restriction the court were divided in opinion; and he said he agreed with the conclusion of Judge McKennan in *Hatch v. Adams*, and held that the purchaser of a patented article from the assignee of a certain defined territory was not at liberty to sell it in the

¹ 22 Fed. Rep. 438, U. S. Circuit Court, E. D. N. Y., Dec. 4, 1884.

² *Hatch v. Hall*, 30 Fed. Rep. 613, April 26, 1887.

³ 37 Fed. Rep. 789, U. S. Circuit Court, E. D. Penn., Feb. 21, 1889.

⁴ *Standard Folding Bed Co. v. Keeler*, 37 Fed. Rep. 693, U. S. Circuit Court, D. Mass., Feb. 20, 1889. Followed on final hearing, Jan. 3, 1890, 41 Fed. Rep. 61.

course of trade in another territory in which another person had an exclusive right.

No reference is made in these cases to the decision of Judge Coxe in *Hobbie v. Smith*,¹ in which the facts were similar to those in *Hobbie v. Jennison*, afterwards decided by Judge Brown,² and finally by the Supreme Court.³ The question was whether the plaintiffs, being assignees of a patent for certain States, could recover damages for the sale of the patented articles in another territory by persons who knew that they were to be used in the territory of the plaintiffs. Upon this proposition, Judge Coxe said, "there may be room for discussion as to what the law should be; there can be none as to what the law is. In *Adams v. Burke*, 17 Wall. 453 (at Circuit, 1 Holmes, 40), the question was sharply at issue, and the Supreme Court decided that a patented article, when rightfully bought, could be used anywhere, thus going a step further than is necessary in the case at bar, for here the action is against the seller, there being no pretence that the defendant ever used the pipe in the forbidden territory."

*Hobbie v. Jennison*⁴ came before Judge Brown (afterwards a justice of the Supreme Court), and he agreed with Judge Coxe that the case was not to be distinguished from *Adams v. Burke*, and said that that case must be accepted as authority for the broad proposition that the sale of a patented article by an assignee within his own territory carries the right to use it everywhere, notwithstanding the knowledge of both parties that a use outside of the territory was intended; but he said: "Were this an original proposition, we should be strongly inclined to hold that the vendor of a patented article who sells the same for the purpose of or knowing that it will be resold or used in the territory belonging to another, is equally amenable to suit as if the sale were made in such other territory." And referring to *Adams v. Burke*, he said: "It may perhaps admit of some doubt, especially in view of the strong dissenting opinion in that case, whether this doctrine will be adhered to should the question ever be reargued, but of course the case is the law unto this court, and must be followed until overruled by the court which pronounced the opinion."

Shortly after this, the Supreme Court decided a case involving

¹ 27 Fed. Rep. 656, U. S. Circuit Court, N. D. New York, May 10, 1885.

² 40 Fed. Rep. 887, E. D. Mich., March 4, 1889.

³ 149 U. S. 355.

⁴ 40 Fed. Rep. 887, U. S. Circuit Court, E. D. Mich., March 4, 1889.

the rights of holders of patents for the same invention in different countries, and not those of assignees of the rights for different territories under the same patent.¹ With regard to the claim of a right to use the patented article in this country after it had been purchased in Germany from the holder of the German patent, the Chief Justice said that the right which Hecht (the patentee) had to make and sell the burners in Germany was allowed to him under the laws of that country, and purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent. The court referred to the distinction taken in *Wilson v. Rousseau*,² *Bloomer v. McQuewan*,³ and *Adams v. Burke*,⁴ between the right to make and vend and the right to use, the former being a part of the franchise, and the right to use after the sale being unlimited to any locality; but the conclusion with respect to the right to use was not applied to the case of the article purchased under foreign patents. The monopoly given by the patent of one country was regarded as wholly distinct from that given by another, and there was no discussion of the effect of the statute providing for a division of the monopoly under a United States patent.

When *Hobbie v. Jennison* came before the Supreme Court,⁵ it was insisted that the doctrine of *Adams v. Burke* applied only to cases in which the goods were lawfully sold for general use, and not to a case in which the sale was made nominally where it was lawful for the express purpose of having the goods used in a place where the sale would be unlawful; but the court said: "We are of opinion that the case of *Adams v. Burke* cannot be so limited; that the sale was complete at Bay City, and that neither the actual use of the pipes in Connecticut, nor a knowledge on the part of the defendant that they were intended to be used there, can make him liable."

This was a case in which the patented article was bought for use, and not for sale. In the next case, *Keeler v. Standard Folding Bed Co.*,⁶ the question came squarely before the court whether the doctrine that an article once sold in one place was free from the monopoly everywhere would permit a man to buy from an assignee of one territory for the purpose of selling within the territory of another. The right to vend had been distinguished in

¹ *Boesch v. Gräff*, 133 U. S. 697, March 3, 1890.

² 4 How. 646.

³ 14 How. 539, 549.

⁴ 17 Wall. 453.

⁵ 149 U. S. 355.

⁶ 157 U. S. 659, April 5, 1895.

Adams v. Burke from the right to use, and had been called a part of the franchise. Did the fact that the article had been sold permit the purchaser to sell it in those parts of the country in which this franchise was in another? The Supreme Court held that it did.

Judge Brown had then become a member of that court, and he read a dissenting opinion, in which the Chief Justice and Field, J., concurred. He conceded that the court was committed by *Hobbie v. Jennison* to hold that a vendee of a patented article has a right to make use of it anywhere, even though it was purchased for the purpose of being used in the territory of another; but he said: "We are now asked to take another step in advance and hold that a rival dealer, with notice of the territorial rights of a licensee or assignee, may purchase any quantity of patented articles of the patentee, and sell them in his own territory, in defiance of the rights of the owner of such territory. To this proposition I am unable to give my assent." The court, however, decided that, upon the doctrine of *Adams v. Burke* and *Hobbie v. Jennison*, "It follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles unrestricted in time or place."

The result of these decisions is that the rights of assignees for specified parts of the United States, under assignments which are authorized by the statute, are without protection from the patent laws against the invasion of their territory by the use or sale of the patented articles purchased in other parts of the country, even though the purchase be made for the purpose of use or sale within the territory, and with notice of the rights of the assignees.

Whether such rights may be protected in any other way, the Supreme Court decline to express an opinion, and Mr. Justice Shiras, reading the opinion of the Court in *Keeler v. Standard Folding Bed Co.*, said: "Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and [is one] upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws."

It is certainly very important that protection of some kind should be given to the territorial rights which the patent laws allow to be created.

Justice Bradley, in his dissenting opinion in *Adams v. Burke*,¹ speaking of the effect of the decision that, when the article had once been sold, the patent laws afford no protection, says: "Such a doctrine would most seriously affect not only the assignor (as to his residuary right in his patent), but the assignee also. For if it be correct there would be nothing to prevent the patentee himself, after assigning his patent within a valuable city or other locality, from selling the patented machine or article to be used within the assigned district. By this means the assignment could be, and in numberless instances would be, rendered worthless. Millions of dollars have been invested by manufacturers and mechanics in these limited assignments of patents in our manufacturing districts and towns, giving them, as they have supposed, the monopoly of the patented machine or article within the district purchased. The decision of this court in this case will, in my view, utterly destroy the value of a great portion of this property." So also Justice Brown, in his dissenting opinion in *Keeler v. Standard Folding Bed Co.*,² said: "Under this rule a patentee may assign his right to make and sell the patented article in every State in the Union except his own; may there establish a manufactory, and may, by his superior facilities, greater capital, more knowledge of the business, or more extensive acquaintance, undersell his own licensees, drive them out of business, and utterly destroy the value of their licenses."

It is a matter of great practical importance, therefore, for those who deal in patent rights to know whether, upon the assignment of the patent, or the grant of an exclusive license for a certain territory, there is any way in which the patentee and his assignees or licensees may protect themselves against the sale or use within their territories, and, if so, by what means such protection may be secured, and it opens an interesting field for inquiry as to what principles of law or equity are applicable to such a case.

It is obvious that contracts between the patentee and the licensees are not in themselves sufficient to afford all the protection that is required. If each licensee should agree that he would not himself sell the patented article outside of his own territory, and if the patentee should agree that he would not himself sell the article nor authorize it to be sold within that territory, these agreements would be binding between the parties, but they would not in them-

¹ 17 Wall. 453-459.

² 157 U. S. 659-672.

selves be binding upon strangers who might purchase the article, nor would they create any direct obligation between the assignees of the patent for the various territories. The contract between the patentee and the assignee of one territory would not furnish a right of action against the assignee of another, nor would it give the assignee protection against the acts of purchasers who were not parties to the contracts. In order to give adequate protection it is necessary that there should be some obligation that will be binding upon and available to the assignees as between themselves, and will also affect purchasers of the patent rights, or patented articles, or at least such purchasers as bought with notice of the arrangements made with respect to the sale or use of the articles in the various territories.

The question is whether such obligations can be created, and how far they will reach, and in what manner they can be enforced. Suppose, for example, that a patentee has given exclusive licenses to several persons to sell within certain territories, and has taken from each licensee an agreement that he will not sell in the territory of the other. If the patentee himself, or any of his licensees, sell within his own territory to one who is known to be buying for the purpose of selling within the territory of another, and with notice of the agreements, is there any way of preventing the purchaser from selling the goods within the territories of the other licensees? The patent laws, under the decisions of the Supreme Court, afford no protection in such cases. Is there a remedy at law or in equity against the patentee, or the several licensees, or against the purchaser who buys with notice of the agreements?

The remedy of a licensee against the patentee depends of course upon the terms of the contract between them, but to what extent can the several licensees acquire rights as against one another, and as against the acts of purchasers from the others?

The Supreme Court, in *Hobbie v. Jennison*,¹ while deciding that the patent laws afforded no protection in such cases, said: "It is easy for a patentee to protect himself and his assignees where he conveys exclusive rights under the patent for particular territories. He can take care to bind every licensee or assignee, if he gives him the right to sell articles made under the patent, by imposing conditions which will prevent any other assignee or licensee from being interfered with." There were no conditions nor restrictions

¹ 149 U. S. 355.

in that case in the title of the defendant. He was the assignee and owner of the patent for the State of Michigan, and it was held that he was entitled to sell goods with the knowledge and intention that they were to be used in the territory assigned to the plaintiff. The suggestion, therefore, was not necessary to the decision of the case, and cannot be regarded as an authoritative declaration of the opinion of the court. In the next case, — the case referred to at the beginning of this article,¹ — the court seems to take pains to declare that it has not committed itself to the suggestion thrown out by Mr. Justice Blatchford in the former case. The court, speaking by Mr. Justice Shiras, says: "Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers, is not a question before us, and [is one] upon which we express no opinion."

There is no decision of the Supreme Court, therefore, upon the question whether by means of conditions or of contracts brought home to purchasers the assignees can be protected from being interfered with by one another or by purchasers of the patented article with notice of the contracts.

The suggestion of Mr. Justice Blatchford seems to be that, by means of conditions imposed in granting the licenses, the several licensees may be prevented from interfering with one another in the sale of the patented articles; and the question suggested by Mr. Justice Shiras is whether the patentee may protect himself and his assignees by special contracts brought home to the purchasers. The question is, On what principles can these conditions and these contracts be made binding upon persons who are not parties to them?

If an assignee takes the right to sell in a given territory on condition that he will sell only for use within that territory, will a purchaser who buys with notice of this condition be bound by the restriction? Can he be restrained by a court of equity from making use of the article in such a manner as to violate this condition agreed to by his vendor, or does the purchase of the article give him the right to use it without regard to any contract or condition entered into with respect to it by a previous owner?

An assignee of the patent right may, no doubt, take it subject to restrictions affecting the manner of the use of it. He may be subject to an agreement not to manufacture except for certain

¹ Keeler v. Standard Folding Bed Co., 157 U. S. 659.

persons, not to use except in a certain way, and not to sell except in a certain place, and any assignee from him of this right would take the privileges subject to these conditions. But upon a sale of a patented article, the article itself, according to the doctrine established in the Supreme Court, is freed altogether from the monopoly of the patent laws, and is no longer subject to any restriction imposed by them. If any restriction is to be imposed upon the manner or the place of its use, it must be imposed by contract or other personal obligation; and, with respect to the sale or use of the article itself, the question of restriction will depend upon the question whether a condition or restrictive contract with respect to the use or sale of it may be held to be binding upon any one who purchases it with notice of such condition or contract.

This suggests the question whether the principles of equity that have been applied to lands sold subject to conditions or restrictive covenants are applicable to personal property also. It is well established that, under certain circumstances, one who purchases land with notice of a covenant made with a former owner limiting the manner of its use will be restrained from making use of it in such a manner as to violate this covenant, even though the covenant do not run with the land; and this remedy is given not only to the person with whom the covenant was made, but also in some cases to assignees of other land for the benefit of which the covenant was exacted.

Is there an analogy between the cases in which this doctrine is applied to covenants restricting the use of land, and the cases of agreements restricting the manner of use of patented articles in one territory for the benefit of the rights retained with respect to another territory?

The doctrine has not been applied to personal property in general, and the cases in which the doctrine has been developed and defined relate for the most part to real estate; but it is a suggestive fact that one of the leading cases frequently cited as authority for the doctrine applied to the use of land was a case relating to the use of personal property. It was the decision of Lord Justice Knight Bruce, in *De Mattos v. Gibson*.¹ The owner of a vessel had signed a charter-party for a voyage from Newcastle to Suez, and had afterwards mortgaged the vessel to one who had notice

¹ *De Gex & Jones*, 276.

of the contract. Lord Justice Knight Bruce said: "Reason and justice seem to prescribe that, at least as a general rule, where a man by gift or purchase acquires property from another, with knowledge of a previous contract, lawfully and for a valuable consideration made by him with a third person to use and employ the property for a particular purpose and in a specified manner, the acquirer shall not, to the material damage of the third person, in opposition to his contract and inconsistent with it, use the property in a manner not allowable to the giver or seller. This rule, applicable alike in general, as I conceive, to movable and immovable property, recognized and adopted, as I apprehend, by the English law, may, like other general rules, be liable to exceptions arising from special circumstances, but I see at present no room for any exception in the instance before us." And he issued an injunction restraining the mortgagee, with notice of the charter-party, from interfering with the voyage to Suez.

The contract in this case was not a contract imposing a perpetual restriction upon the mode of the use of an article, and it was not in this respect analogous to a restrictive covenant, nor can the case be considered as authority for the proposition that such a restriction can be put upon the use of personal property. It was a contract made by the owner agreeing to give another the right to use the article for a certain time, and the charter-party may have been regarded as giving an equitable interest in the vessel for the voyage. It was a contract which would be considered in equity as giving the third person a right in the ship which the purchaser with notice would not be permitted to violate. The significance of the decision in the present discussion is, that the court declares, in referring to personal property, the doctrine which has become the basis of the rule adopted in dealing with restrictive covenants with respect to the use of real estate.

The court of equity in restraining the violation of restrictive covenants with respect to the use of land does not enforce any rule of the common law relating to real estate. It does not confine the remedy to cases in which the covenant runs with the land, nor does it base its action altogether upon the idea of an equitable easement, but originally and chiefly upon the ground that the purchaser who has taken the land with notice of a contract made for the benefit of other land of the vendor, or his assigns, shall not be permitted in equity to use it in a manner inconsistent with the contract. The cases on this subject are discussed in an article by

the present writer in the HARVARD LAW REVIEW for January, 1893,¹ with especial reference to the application of the principle to restrictions arising out of the adoption of a general plan for the use and improvement of a tract of land divided and sold to different persons. It was pointed out in that article, that in some of the leading cases the action of the court in granting an injunction was based on purely equitable grounds, and that it was held that the obligation arose out of acquiring the property with notice of the agreements made with respect to it. In *Duke of Bedford v. British Museum*,² one of the earliest cases on the subject, the action of the court was put on that ground. In *Tulk v. Moxhay*, Lord Chancellor Cottenham said: "The question is not whether the covenant runs with the land, but whether a party shall be permitted to use the land in a manner inconsistent with the contract entered into with his vendor, and with notice of which he has purchased." So also in *Whitney v. Union Railway Company*,³ Chief Justice Bigelow, of Massachusetts, said: "An agreement restricting the use of land is binding on an assignee with notice, not because he is an assignee, but because he has taken the estate with notice of a valid agreement concerning it which he cannot equitably refuse to perform"; and Chief Justice Beasley, in a leading case in New Jersey,⁴ said: "The principle on which equity enforces the burden of a covenant against an alienee is that of preventing a party having acquired land with knowledge of the rights of another from defeating such rights, and not upon the idea that such engagements create easements which run with the land."

*Whatman v. Gibson*⁵ was one of the first of the English cases in which relief was granted upon the principle of carrying out a general plan for the improvement of land, and Vice Chancellor Shadwell said that all the parties to the deed were bound by it, and that he saw "no reason why, there being an agreement, all persons who came in with notice should not be bound by it, each proprietor being manifestly interested in preserving the uniformity and respectability of the row."

In a case in New Jersey,⁶ the doctrine of obligation arising out of notice was applied to the use of personal property which a

¹ 6 *Harvard Law Review*, 280.

² 1 M. & K. 522 (1822); 2 Phill. 774 (1848).

³ 11 Gray, 359.

⁴ *Brewer v. Marshall*, 19 N. J. Eq. 537 (1868).

⁵ 9 Sim. 196 (1838).

⁶ *Manhattan Manufacturing & Fertilizing Co. v. Van Keuren*, 23 N. J. Eq. 251.

lessor of land had agreed to give to the lessee to be used in carrying on his business on that land. It was the blood and other refuse of an abattoir, and a subsequent lessee of the abattoir sold this blood and refuse to another, who had notice of the covenant that they were to be given to the complainant. It was held that the lessees of the abattoir were bound by the covenant, and that the purchasers, having notice of it, were bound also, and that they should be restrained from taking or using the products which had been reserved for the complainant.

The principle that one who purchases property, with notice of a valid agreement made concerning it conferring a right upon another, would seem to be applicable to personal property, as well as to real estate, and it was this doctrine no doubt to which Justices Blatchford and Shiras referred when they spoke of notice of the rights of assignees of a territorial right, and of "contracts brought home to the purchasers."

The notice, however, must be notice of some right relating to the thing purchased, or else of some right of the party or of a third person in other property which is connected with the contract of sale. It must be notice of a right acquired in a thing, an equitable right acquired by contract and not conveyance, but still a right in a thing and not a merely personal obligation. The right protected is the right which some person has acquired concerning the thing, and not merely a right which has been acquired or given with respect to the actions of another. It is only with this limitation that it will be held that notice affects the right of a purchaser to deal with the thing purchased, whether it be real estate or personal property.

The doctrine of restrictive covenants with respect to real estate does not go so far as to permit the owner of land to impress upon it any notion he may please, nor does it impose upon the purchaser of land the performance of any contract whatever which the owner may make with another with respect to the use of it.¹ Covenants which are enforced under this doctrine are for the most part negative covenants with respect to the manner of the use of the land,² and they are covenants made upon the sale of the land with the intention that they should affect the use of

¹ *Brewer v. Marshall*, 19 N. J. Eq. 537; *Wilson v. Hart*, L. R. 1 Ch. App. 463.

² *Haywood v. Brunswick &c. Soc.*, L. R. 8 Q. B. D. 403; *London & S. W. Ry. Co. v. Gomm*, L. R. 20 Ch. D. 562.

it in the hands of future assignees.¹ They must be covenants touching the use of the land itself, and not merely the products of it,² nor the conduct of the owner of it, and if they are to be enforced by assignees of the covenantor they must be made for the benefit of other land which he retains, and afterwards conveys, or in pursuance of a general plan relating to the land to which they relate.³ The doctrine, therefore, if it were applied to personal property, would not be unlimited in its scope, nor be applicable except under certain circumstances and conditions.

It is not necessary now to consider the general question whether it would not be inconsistent with the freedom of sale of personal property to permit restrictions to be placed upon the use of it in the hands of purchasers. It is no doubt true that there are many conditions which cannot be imposed by owners of personal property upon the use that is to be made of it hereafter. The question now relates to the effect of a contract made by the owner of a patent right with respect to the use of an article which he has the exclusive right to make, use, and sell. The contract is made as one of the conditions upon which he parts with this exclusive right, and is made for the benefit of the rights under the patent which he retains, and which it may be he afterwards conveys to others. It is a contract made, it may be, in pursuance of a general plan for the distribution of his rights over the whole territory embraced in his patent rights, and for the benefit of all who may purchase from him any parts of those territorial rights. In all these points the conditions are analogous to those under which the law of restrictive covenants with respect to land is applied, and the question is only whether under these circumstances the same principles are applicable to the sale of patented articles for use in certain territories, and whether by means of notice brought home to the purchasers the conditions so imposed may be enforced.

With regard to real estate it is well settled that, if land be sold subject to a restrictive covenant taken for the protection of other

¹ *Keates v. Lyon*, L. R. 4 Ch. App. 218; *Master v. Hansard*, L. R. 4 Ch. D. 718; *Renals v. Cowlishaw*, L. R. 9 Ch. D. 125; L. R. 11 Ch. D. 586; *Nottingham Patent Brick & Tile Co. v. Butler*, L. R. 15 Q. B. D. 264.

² *Brewer v. Marshall*, 19 N. J. Eq. 537.

³ *Spicer v. Martin*, 14 App. Cas. 12; *MacKenzie v. Childers*, L. R. 43 Ch. D. 265; *Parker v. Nightingale*, 6 Allen, 341; *Dana v. Wentworth*, 111 Mass. 291; *De Gray v. Monmouth Beach Club House Co.*, 50 N. J. Eq. 329.

land retained by the grantor, a purchaser of the land sold taking with notice of the covenant may be restrained from using the land in violation of the covenant, and that a suit for such an injunction may be maintained, not only by the original grantor, but also under some circumstances by one who has purchased the land for the benefit of which the covenant was made.¹

So also where land is divided into parcels, and all the parcels are sold with similar restrictions in pursuance of a general plan for the improvement of the whole property, any purchaser that takes with notice of the restrictions will be restrained from using the land in a manner inconsistent with the contract, and a suit for an injunction may be brought against any purchaser of any of the other parcels, whether he be in law an assignee of the contract or not.² And again, if two persons agree together with respect to the restrictions upon the use of adjoining pieces of land, the assignee of either one with notice of the covenant will be prevented at the suit of the assigns of the other from using the land in violation of the agreement.³

So far as this principle is concerned, there would seem to be no distinction between real and personal estate, and the cases relating to real estate are, therefore, to be considered in examining the question of the effect of notice of a restrictive covenant relating to the use of patented articles.

There are analogies in these cases to the cases of the owners of territorial rights in a patent. The analogies are not perfect, but they are suggestive, and there is reason for the application of the same principles to both. A patentee has the exclusive right to make, use, and vend the patented article throughout the whole country. The law gives him authority to assign this exclusive right to different persons for different parts of the United States. Each purchaser then acquires an exclusive right for the territory assigned. In making this division of his territory the patentee, in order to protect the rights which he retains, or those which he may assign to others, exacts of each assignee a covenant that the goods which he may manufacture, use, or sell under the patent shall not be sold or used outside of his own territory. The con-

¹ *Renals v. Cowlishaw*, L. R. 9 Ch. D. 125. "Restrictions upon the Use of Land," 6 Harv. Law Rev. 280-289, and cases cited.

² *Spicer v. Martin*, 14 App. Cas. 12; *Dana v. Wentworth*, 111 Mass. 291; *De Gray v. Monmouth Beach C. H. Co.*, 50 N. J. Eq. 329, 336; 6 Harv. Law Rev. 280 291.

³ *Trustees of Columbia College v. Thatcher*, 87 N. Y. 311.

tract is one of the conditions under which he has acquired any rights at all. He may have bought goods already manufactured under the patent, or the right to make them himself. In either case, the contract with respect to the place in which they shall not be used is a limitation in equity upon his right to sell or use them. He sells them to one who has notice of the rights of others so reserved under the contract. The purchaser has a complete title at law. The goods are free from the restrictions of the patent laws, but he has purchased them with notice of a contract made by the owner of the patent rights for the protection of other rights which he retains, or has conferred upon others, and it would seem that equity should enjoin him from making use of the goods in violation of the contract under which the right to sell them was acquired by his vendor. The contract is in fact a charge upon the franchise conveyed. It is at least an equitable right in another, and brings the case within the rule that a purchaser with notice of a right in another is in equity liable to the same extent and in the same manner as the person from whom he made the purchase.¹

In such a case the right to an injunction would belong not merely to the patentee with whom the contract was made, but also to all the assignees of the franchises for the benefit of which the contract was taken. The contract was not merely a personal one, but it was made in pursuance of a general plan for the division of the property represented by the franchise, and for the protection of that franchise in the hands of the assignees of the several territories. The contract relates not merely to the sale of articles under the patent, but also to the exercise of the franchise itself. In purchasing the right to make and sell in a particular place, the purchaser buys a portion of the franchise which the patent confers. It was so held by the Supreme Court in *Bloomer v. McQuewan*,² where a distinction was made between this and the right to use an article already sold, and in making an assignment of a territory or a license to make and sell within a certain territory the vendor who exacts a contract not to make or sell for use in another territory takes it for the protection of the portion of the franchise which he retains, or which he has sold or is about to sell to others.

One who purchases the article, therefore, with notice of the contract, purchases it with notice of the rights of others which the contract was intended to protect.

¹ *Le Neve v. Le Neve*, 2 White & Tudor's Ldg. Cas. Eq. 32, note.

² 14 How. 539-549.

It may be objected that the effect of this, after all, is to impose restrictions upon the use and sale of articles of merchandise, and that such restrictions are inconsistent with the right of property in chattels, and that it is against public policy to permit personal property to be subject to restraints with respect to the place in which it may be used, and that it may be even an improper restraint upon commerce between the States. We need not now inquire whether the doctrine of notice may be applied to the ordinary sales of personal property, and whether it is possible for an owner to execute a contract with respect to any chattel in the ordinary course of trade which shall be binding upon all who take with notice of it. Questions of public policy would no doubt affect the decision in such a case, but to apply the doctrine to cases of sales of patented articles sold by persons having limited rights under the patent laws is only to give protection to rights which the patent laws have created. Whatever may be thought of the policy of permitting a person to divide up the franchise of a patent, and to assign several franchises for different parts of the United States, that right is expressly given by the patent laws, and it is only because goods once sold are no longer subject to the patent that the right is not protected by the patent law itself. It would seem, therefore, that it is not against public policy to permit the holders of the several franchises to protect the franchise by special contracts with reference to the use of the articles within their territories; but, on the other hand, it seems to be the only way in which effect can be given to the policy implied in that provision of the patent laws which authorizes the patentee to make an assignment for a specified part of the United States.

There are some suggestions in the text-books and in the decided cases that the doctrine of notice of restrictive covenants will be applied to the use and sale of patented articles within specified districts. Justice Blatchford, in *Hobbie v. Jennison*,¹ spoke only of binding each assignee or licensee by imposing conditions which would prevent any other assignee or licensee from being interfered with, and Justice Shiras, in *Keeler v. Standard Folding Bed Co.*,² said, "Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and [is one] upon which we express no opinion." But in a recent English case, *Wederman v. Société Générale*

¹ 149 U. S. 355.

² 155 U. S. 659.

d'Electricité,¹ the doctrine was applied to the purchase of patent rights subject to notice of an agreement with another to pay royalties. It was insisted that there was no privity between the plaintiff and the last assignee, and that the first assignee alone was liable, but this was not sustained. Sir George Jessel, M. R., said: "Now if that is so, if the owners for the time being of the patent are to work it, and are to pay five per cent to the plaintiffs out of the profits, then whether we treat it as a partnership, or whether we treat it as a charge on this patent, or whether we treat it as a royalty, it is quite plain that nobody could take the patent with notice of the arrangement, and say we will keep all the profits and not be liable to account. What *Spencer's Case* (3 Rep. 16*a*), and *Keppell v. Bayley* (2 M. & K. 517), have to do with such a case as this, I cannot see. It is a part of the bargain that the patent shall be worked in a particular way, and the profits disposed of in a particular way, and no one who takes with notice of that bargain can avoid the liability."

This was a case of the purchase of the whole franchise, and not of the franchise for particular districts, and the covenant related to the profits, and not to the use of the article; but the rights acquired on the purchase of a patent were held to be affected by notice of a bargain made with another with respect to the proceeds of the sale of the patented article.

In a later English case, *Heap v. Hartley*,² the question related to the right to exercise the invention and to sell or use the patented article within a specified district for which another had an exclusive license. It was held that a mere licensee who was not an assignee of a patent acquired merely a right to use, and not a title, and could not maintain an action under the patent for an infringement; but *Cotton and Fry, L. JJ.*, before disposing of the case, inquired whether the defendant had not had actual notice of the exclusive license of the plaintiff to use and sell within the district. *Fry, J.*, said: "Then in the second place the plaintiff puts his case in this way. He says, 'The exclusive license implies a contract not to grant to anybody else within the district. The defendants took these machines with notice of that contract, and it would be unconscientious to allow them to use the machines in such a manner as to violate the contract of which they had notice.' Had they then notice of the contract?" It was found that they had

¹ L. R. 19 Ch. D. 246.

² L. R. 42 Ch. D. 461 (1889).

not notice, but it is plain that the question of notice was considered to be pertinent, and the inference is, that, if they had bought the machines with notice of the contract that no one except the plaintiff should be allowed to use them within the district, they would have been restrained from using them there.

In *Dickerson v. Matheson* in the Circuit Court of Appeals for the Second Circuit,¹ a notice of restriction against importation into the United States was held to be binding upon one who purchased patented articles in London from one who held both the German and the United States patents. It was held that the defendant had not succeeded in an attempt by indirection to make the purchase without notice of the restriction, and that the articles remained subject to the United States patent, and that the defendant, using them in the United States, was guilty of infringement. The court said: "A purchaser in a foreign country of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without restriction upon the extent of his use or power of sale, acquires an unrestricted ownership of the article, and can use it in this country. The cases which have been heretofore decided by the Supreme Court in regard to unrestricted ownership by purchasers in this country of articles patented in this country and sold to such purchasers without limitation or condition, lead up to this principle." This seems to imply that the doctrine that patented articles once sold are free from the monopoly applies only to cases in which they are sold without limitation or condition, and that a sale made with such a restriction would not be held to give an unrestricted right to the purchaser. If the vendor has parted with his legal right, there would at least remain a right enforceable in equity against a purchaser with notice. In the case just referred to, the legal right under the patent was held to be affected by the notice. The purchase being made in England from the owner of the patent in Germany and in the United States, and being made with notice that the goods were not to be used in the United States, it was held that they could not be used there without infringing the United States patent. "It was decided," as Judge Coxe said in the court below,² that "the restriction would follow the goods to this country if the original sale was made

¹ 57 Fed. Rep. 524.

² *Dickerson v. Matheson*, 50 Fed. Rep. 73-77.

subject to the restriction, and it was so made if the goods were paid for at or after notice of the restriction."

There is a distinction between this case of a man holding a patent for two countries, and the case of one who holds patent rights for several districts within the United States; but in the latter case the restriction might well be held to follow the goods into other districts, and to reserve a right in the patentee which could be protected in equity as against purchasers with notice.

In the later case of *Edison Electric Light Co. v. Goelet*,¹ U. S. Circuit Court, S. D. New York, the question of notice was regarded as important on the question whether the vendor of patented articles for one district could be restrained from selling them in the district assigned to another dealer. The court said: "There is no doubt that the defendants were advised in a general way that the complainants claimed the sole right to sell the Edison lamps in the city of New York, but there is no reason for discrediting their statement that as to these particular lamps they had no notice or knowledge of the restriction placed upon them by those who sold them."

In the *Cotton Tie Case*,² patented articles were sold with the condition that they should be used only once, and it was insisted by counsel in the brief for the defendants, that, assuming this restriction to be legally effective between the complainants and the first purchasers, it was not such a restriction as ran with the articles and could operate as to subsequent purchasers. The court, however, did not allude to this argument, but based its decision on the ground that, the ties having been purposely destroyed in the using, the defendants in putting them together were in fact making new ties and were guilty of infringement.

Mr. Walker in the new edition of his book on Patents does not discuss the question, but he seems to take it for granted that notice would have an effect upon the rights of purchasers.³ He says: "An agreement between grantors not to sell or use the patented article in the territory of each other is not binding upon purchasers from either of the grantees unless they buy with notice of the restriction."

¹ 65 Fed. Rep. 615.

² *American Cotton Tie Supply Co. v. Simons*, 106 U. S. ; 14 Brodrex Pat. Cas. 159.

³ Walker on Patents, 3d ed., § 288.

He cites a case in Illinois,¹ where two joint owners of a patent had divided the country between them, and had agreed that each should have the exclusive right to manufacture within his own district, and it was held that this agreement was not binding upon a purchaser from one of the parties of one of the machines made under the patent. The court held that the contract not to manufacture in Illinois did not attach itself to the machines, and run with the property in them as a covenant against their being used in Illinois. It was insisted that the fact that the contract was recorded in the Patent Office as a part of the assignment was notice to the purchaser; but the court decided that the contract related to the manufacture of knit goods by the party, and not to the use of the machines, and the question of notice was not considered.

The authorities are not conclusive on either side of the question, but, under the principles which we have referred to, it would seem to be true that on the sale of territorial rights the patentee may protect himself and his assignees by means of conditions or of contracts brought home to the purchasers. If he takes an agreement from each assignee not to sell or use or sell for use in any territory not assigned to him, or if he makes this a condition of the assignment or the license, then he may not only have his remedies at law and in equity against the assignee or licensee, but he may also have a remedy in equity against one who takes an assignment of the right to sell or use, and also against one who purchases a patented article with notice of the restriction. The rights of a second assignee or licensee of the franchise itself would of course be limited, even at law, by the terms of the original assignment; but the rights also of a purchaser of an article covered by the patent would be affected in equity by notice of the limitation placed upon the rights of the seller, and of an agreement made by him for the protection of the remaining rights of the patentee, or of the rights which he conferred upon others with respect to the sale or use of the articles in certain territories.

The purchase gives the legal right to use the article in every part of the United States, but this would not be available to one who purchased with notice of the fact that the seller had acquired his right to sell subject to a condition or contract that he would not sell for use in the territory granted to another. Whether the contract or condition be regarded as a charge upon the franchise, or

¹ Pratt v. Marean, 25 Ill. App. 516 (1888).

as a restrictive covenant with respect to the exercise of the franchise and upon the use of the articles, it would confer rights which a court of equity could protect, and one who had notice of these rights would not be permitted to use his legal title for the purpose of defeating them. Proof of the notice must be distinct. Notice "must be brought home to the purchaser," but if there were definite notice of the contract, and certainly if there were evidence of intentional combination with the person by whom it was made, it may be assumed that the court of equity would give redress.

Edward Quinton Keasbey.

NEWARK, N. J., March, 1896.